

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
May 23, 2023

To: Board of Supervisors

Through: Ann Edwards, County Executive

David Villanueva, Deputy County Executive
Administrative Services

From: Rami Zakaria, Chief Information Officer, Department of
Technology

Subject: Authorize The County Purchasing Agent To Negotiate And
Execute An Additional Property Schedule to the existing
Financial Lease Agreement Not To Exceed \$26,000,000 For
A Term Not to Exceed 5 Years For The Purchase Of Cisco
Networking And Telephony Equipment, Software Licensing,
And System Maintenance And Select The Cisco Authorized
Reseller To Supply Such Equipment From The Responses To
Request For Bids Number 0177.

District(s): All

RECOMMENDED ACTION

Approve the attached resolution authorizing the County Purchasing Agent, or designee to:

1. Negotiate, execute, and deliver in the form attached, with any changes approved by County Counsel, an additional property schedule to the existing financial lease agreement with Key Government Finance, Inc. for a term not to exceed five years and for an amount not to exceed \$26,000,000 for the bulk purchase of Cisco networking and telephony equipment, software licensing, and maintenance and make any necessary amendments, modifications and execute ancillary documents needed to uphold the additional property schedule and existing lease agreement including the ability to terminate the agreement if deemed necessary, and execute and amend an escrow agreement with Key Government Finance Inc. and Zions Bancorporation, and
2. Select the contracted Cisco Value Added authorized Reseller (VAR) to supply such equipment described in the attached Bill of Materials (BoM)(ATT 1) and negotiate, execute, deliver, and amend an agreement with such VAR.

BACKGROUND

Authorize The County Purchasing Agent To Negotiate And Execute An Additional Property Schedule To The Existing Financial Lease Agreement Not To Exceed \$26,000,000 For A Term Not to Exceed 5 Years For The Purchase Of Cisco Networking And Telephony Equipment, Software Licensing, And System Maintenance And Select The Cisco Authorized Reseller To Supply Such Equipment From The Responses To Request For Bids Number 0177.
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The Department of Technology (DTech) maintains the County of Sacramento Wide Area Network (CoSWAN) infrastructure. This infrastructure supports the mission-critical information technology (IT) operations of all County departments, with the exception of the Sheriff and District Attorney who support their own networks.

The County standard for network equipment is Cisco. Staff have worked with the County's dedicated Cisco account team and VAR to brainstorm ideas on how to save money on equipment and maintenance support purchases for CoSWAN. As a result, Cisco offered a significant discount incentive if the County commits to purchasing the entire BoM referenced above. That BoM covers all equipment, software, licensing, and maintenance costs required to maintain the CoSWAN for the next 60 months. If the County commits to this agreement, we will realize approximately \$8,800,000 savings over the current contracted discount rate for those items if they were purchased separately.

The equipment to be replaced by this additional property schedule to the existing financial lease is nearing the end of its useful life. Replacement of this equipment and ongoing software licensing and maintenance support for the infrastructure is needed to ensure the security and availability of mission-critical IT systems used by DTech's customer departments connected to CoSWAN.

On July 12, 2019, the Department of General Services Contract and Purchasing Services Division Approved Contract WA00036851. This contract resulted in the existing lease agreement which replaced roughly 50% of the Cisco equipment in CoSWAN. The current proposed BoM would replace the remaining infrastructure and maintenance costs.

The Department of General Services Contract and Purchasing Services Division released Request For Bids (RFB) Number 0177 for the VAR to supply the BoM.

DTech is requesting the budget authority to add an additional property schedule to the existing financial lease for a term of up to five years to stabilize rates and limit rate increases to customer departments. The lease will be with Cisco Capital and Key Government Financing Inc. (KGF), Cisco's partner for government leases. Pursuant to the tax-exempt lease/purchase agreement between the County and KGF, which includes an escrow agreement with Zions

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Bancorporation, National Association dba Zions Bank, KFG will purchase the BoM equipment at the direction of DTech from the selected contracted VAR from RFB 0177 through funds placed in an escrow account and lease the equipment to the County with the option to purchase.

FINANCIAL ANALYSIS

The CoSWAN infrastructure will require a significant investment over the next four fiscal years to refresh equipment reaching end-of-life. DTech has explored options to keep the cost of these purchases as low as possible while maximizing the efficiency of the equipment in use. The proposed additional property schedule to the existing financial lease agreement has great potential to save the County money while providing more current technology. Utilizing Key Government Finance Inc. and Cisco, the County will be able to take advantage of a Vendor Payment equal to the total interest that would be paid over the lifetime of the financing effectively creating a zero percent interest loan. Additionally, it will spread the cost, stabilize rates, and limit rate increases to DTech's customer departments.

In accordance with Government Code Section 5852.1 the below is a good faith estimate for the transaction as provided by KGF:

True Interest Cost	6.46%
Finance Charge*	\$7,500
Amount Financed	\$ 21,999,968
Total Payment by the County	\$ 21,999,968
Vendor Payment (CISCO)	\$ 3,199,995

- The Finance Charge listed above is an amount required for a Tax Opinion that will be paid for by the Department of Technology within current budget appropriations.

The purchase of this equipment is included in DTech's WAN Connectivity fee and telephone fees and is recovered over the life of the asset. Fiscal Year 2023-24 Requested Budget includes approximately \$2M in funding that will cover the debt service payment. Approximately \$2.4M in additional appropriations will be needed to cover depreciation expenses. We will return

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to you next fiscal year to request an appropriation adjustment to cover this. DTech will use a phased approach to recover the cost of the equipment through the WAN Connectivity fee. Fees for FY 2023-24 are set and will not change but we are estimating this purchase will result in an eight percent increase per year, for four years, beginning in FY 2024-25. It is anticipated that this purchase could avoid cost increases of approximately \$8,800,000 over the next five fiscal years when compared to purchasing yearly as we do now.

COUNTY DEBT UTILIZATION COMMITTEE

On April 27, 2023 the County Debt Utilization Committee (CDUC), comprised of County Counsel, the Chief Fiscal Officer, the Administrative Services Deputy County Executive, the Social Services Deputy County Executive (absent), the Community Services Deputy County Executive, the Public Safety and Justice Deputy County Executive, Interim Director of Finance, County Debt Officer, and the Chief Information Officer (as it relates to Department of Technology) met to consider the issuance of this property schedule. At that time the CDUC recommended that the Board approve the issuance as described above.

Attachment:

RES – Resolution

ATT 1 – Bill of Materials (BoM)

ATT 2 – Form of Property Schedule and Exhibits

ATT 3 – Cisco Purchase Exception to Bid

ATT 4 – Cisco Financing Exception to Bid